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Spring Meetings

Growth Prospects Seen Brightening, but Action Needed to Broaden, Sustain Recovery

Members of key ministerial-level committees meeting in Washington on April 25–26 welcomed the recent successful conclusion of the Uruguay Round of multilateral trade negotiations, which, together with the substantive progress in implementing the cooperative growth strategy set out in April 1993, had contributed to improving the climate for global growth. Ministers and Governors gathered for the spring meetings of the Interim Committee (of the Board of Governors on the International Monetary System) and the Development Committee (Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries) welcomed signs of recovery, as well as the IMF's intensified surveillance over its members' economic policies. They reaffirmed the need for industrial and developing countries to persevere with sound macroeconomic policies and structural reforms and emphasized the importance of adequate financial support—from the IMF and bilateral creditors—to support strong policies pursued by developing countries.

Belgian Finance Minister Philippe Maystadt (left) and IMF Managing Director Michel Camdessus at the Spring Meetings.

Interim Committee

In commenting on the prospects for industrial countries, the Interim Committee—the IMF's principal advisory committee, chaired by Belgian Finance Minister Philippe Maystadt—cited the continued low inflation in many countries, progress in reducing medium-term fiscal deficits in some countries, lower short-term interest rates, and an abatement of exchange market tensions in Europe. According to the Committee's communiqué, the recovery was well established in the United States, the United Kingdom, and Canada, while still emerging in continental Europe and Japan. Ministers emphasized that industrial countries had to take further actions—depending on their cyclical position—to ensure a more broadly based and sustained recovery. In addition, they should forcefully implement plans for medium-term fiscal consolidation to raise national savings and enhance growth and employment prospects. "The most pressing economic and social problem in many industrial countries," according to the communiqué, "remains high structural unemployment," which requires that countries adopt decisive labor market reforms to address the root causes of that problem.

In the developing world, Committee members welcomed the continued strong growth in many countries that had pursued sound macroeconomic policies and *(Please turn to page 130)*

World Economic Outlook

See page 141 for highlights of the April 20 press briefing on the spring edition of the *World Economic Outlook* given by Michael Mussa, Director of the IMF's Research Department.

structural reforms—which further enhance their prospects in a more liberal global trading environment. Ministers pointed to the advancing reform process in several economies in transition, supported by the IMF. They also noted the "courageous" reform measures in the African franc zone, which accompanied the recent devaluation of the CFA franc and which should promote a resumption of growth in these countries. Committee members were concerned about those countries experiencing stagnating or declining living standards. These countries must strengthen their resilience to external shocks by adopting strong structural adjustment programs; for the low-income countries, official bilateral creditors should take a more flexible approach to reducing the stock of debt and continue providing concessional assistance.

The Interim Committee communiqué termed the reform process in transition economies "a task of historic proportions deserving the full and concerted support of the international community." Ministers noted that growth is being restored in countries that have reduced inflation and persevered with major structural reforms—including institution-building and enterprise restructuring. In contrast, the costs of delays in implementing comprehensive reforms was "starkly evident" in other countries. The Committee welcomed the IMF's further financial support for Russia. Ministers emphasized that strong policies in the transition economies had to receive adequate financial support.

The Committee considered the Managing Director's proposal for a new SDR allocation, the need to address the problem of members that have not participated in previous allocations, and a management proposal to allow countries in sufficiently strong external positions to provide additional financing for IMF-supported adjustment and reform. Members asked the IMF's Executive Board to continue studying the issue and offer recommendations at the fall Annual Meetings. IMF Managing Director Michel Camdessus told a press conference after the Interim Committee meeting (see page 131 for excerpts) that he perceived a growing interest in an SDR allocation and hoped that a conclusion could be reached before or during the Annual Meetings.

For the next meeting, the Committee also asked the Executive Board to study "systemic" issues and ways the Committee could better contribute to effective surveillance of countries' economic policies and economic policy coordination. At the press conference following the Interim Committee's meeting, Chairman Maystadt explained that systemic issues included ways to introduce more discipline into the current exchange rate system. Camdessus emphasized that the best way to address problems of currency instability were through heightened surveillance and strengthened policy coordination.

Development Committee

The Development Committee, meeting on April 26 under the chairmanship of Colombian Finance Minister Rudolf Hommes, welcomed the increased flow of financial resources to developing countries. These were mainly private flows for the faster-growing and outwardly oriented countries pursuing successful reform; similarly, much of the rise in official flows has taken the form of nonconcessional financing for middle-income countries. Concessional official development assistance for poorer countries, by contrast, rose only modestly in 1993, and prospects continue to be unfavorable. In this connection, the Committee welcomed the recent extension and enlargement of the IMF's enhanced structural adjustment facility (ESAF) and the increased amounts pledged for the World Bank's Special Program of Assistance for Africa.

On population issues, Committee members stressed that an integrated population policy must recognize the links between economic growth, population, poverty reduction, health, investment in human services, and environmental degradation. And on trade issues, the Development Committee called for rapid and full implementation of the Uruguay Round agreement; at the fall Annual Meetings, the Committee will consider studies by the World Bank and the IMF on the impact of the Round.

Associated Meetings

Communiqués issued after meetings held prior to the Interim and Development Committee meetings were generally sanguine about global prospects, but emphasized the unevenness and tentative nature of recovery. In a statement issued on behalf of the Group of Seven on April 25, U.S. Treasury Secretary Lloyd Bentsen expressed optimism about global prospects, while citing the need to ensure a stronger and more rapid recovery. The Group of Ten (G–10) focused its discussion on developments in international financial markets. In a communiqué issued April 25, Ministers emphasized that recent market volatility and rising yields in worldwide bond markets had to be seen against a background of favorable inflation prospects. While G-10 Ministers cited the satisfactory functioning of financial markets, they saw the need to improve knowledge of the operation of certain fast-growing, innovative market segments. The Group of Twenty-Four developing countries (G–24), in its communiqué issued April 24, called for enhanced coordination of industrial country macroeconomic policies and structural reforms. G-24 Ministers asked for stronger support by the international community for developing country reforms. They asked the Bretton Woods institutions to help developing countries adapt to the post-Uruguay Round trading environment. ■

READEX
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Joint Press Conference

Camdessus and Maystadt Cite Improving Global Conditions, Ways to Enhance Recovery

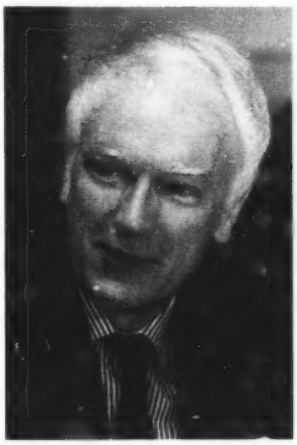
Following are excerpts from the joint press conference given by Philippe Maystadt, Chairman of the Interim Committee, and IMF Managing Director Michel Camdessus, in Washington on April 25:

MAYSTADT: Points 2 and 3 [of the Interim Committee communiqué] deal with the results of the strategy followed by Fund members, and that was the first broad conclusion of the discussion this morning. The Interim Committee, in adopting a year ago its timely declaration on cooperation for sustained global expansion, charted a course that Fund members have since largely followed, and many members explicitly referred to this declaration of April 1993. This course has brought us to the point today where the conditions for sustained growth of the world economy have clearly improved. We summarized, especially in Point 3, the reason for hope, the reason for confidence. Nevertheless, there are still some critical problems, especially the high level of structural unemployment in many parts of the world.

In Point 4, we give some recommendations. You will notice that further action is required by all member countries: "Further action is required by all to ensure a more broad-based and sustained recovery." We then go on to describe the various actions that are needed.

Point 5 deals with the developing countries. As you know, they are in a very different situation, although there are some very encouraging success stories. There are a good number of countries that have adjusted, reformed, opened up to world competition, and have registered robust growth and strong capital inflows. On the other hand, as you know, there are a number of developing countries that have not yet registered any significant improvement in economic performance, with stagnating or even declining living standards. We try to address both kinds of developing countries.

Then, Point 6 welcomes the initiation of the extended ESAF [Enhanced Structural Adjustment Facility]. As you know, many developing countries have been able to contribute to the financing of this new ESAF facility—a most welcome development.



Maystadt: The high level of structural unemployment remains a concern.

Point 7 tries to summarize our discussion of this afternoon about the economies in transition.

Point 8 deals with the financing of transition to market economies.

Point 9 is the conclusion of the discussion about SDR issues. It was a long and very interesting discussion. Of course, we have not yet reached complete agreement. There is, I can say, a very large majority in favor of the proposals put forward by the Managing Director. But not everybody is convinced, so we invite the Executive Board to continue its work on this matter; and I think that today's discussion has been useful in this respect.

In Point 10, we mention that the Interim Committee discussed its future work, particularly with regard to systemic issues. You will notice that we asked the Executive Board to examine the relevant issues and to report back to us by our meeting in Madrid. We agreed that this examination should include a study on possible ways to introduce a higher degree of discipline in the present exchange rate system. I also might add that I invited Committee members to submit written comments and suggestions on the future role and working procedures of the Committee before the Madrid meeting, so that we will cover all elements when preparing a substantive discussion on this subject.

This is a short summary of our discussion of today.

QUESTION: *This must be the third or fourth time in the last few days we have read the comments that further action is required by all to ensure broad-based, sustained recovery. Well, to anyone who was at yesterday's G-7 [Group of 7] meeting and then went to the briefings afterwards, it is clear no government seems really willing to make the moves necessary to ensure broad-based, sustained recovery. Certainly we have heard no evidence of it from the briefings. Don't organizations like the Interim Committee simply make themselves a laughing-stock when, once again, you produce a communiqué that won't see any results from the governments?*

CAMDESSUS: Well, I would suggest that you look at the second paragraph, where the Interim Committee reminds you of the cooperative growth strategy it adopted last year and expresses its satisfaction at having adopted this strategy, since not only has it been implemented by all but it has produced very good results. The Interim Committee was so satisfied with what it did last year with this strategy that you have here, implicitly (particularly in paragraph 4), the related strategy for the next few months, which is captured in the words "Further action is required by all to ensure a more broad-based and sustained recovery" and discusses what each country must do. So, of course, one can see reality with very different glasses, but I perceive here a collective determination to continue acting in a cooperative way to broaden the basis of this recovery and to make it durable and sustainable.

QUESTION: *What further action needs to be taken? If you are talking about fiscal stimulus from Japan and easing of monetary policy in Germany, we have seen no evidence from yesterday's G-7 [meeting] that those governments are prepared to do anything like that.*

MAYSTADT: I can only note that the representatives of the governments you just mentioned agreed today on this text, which says very explicitly that fiscal policy in Japan should stimulate demand. It's clearly stated in the text of the communiqué. You mentioned Germany. The German Minister of Finance agreed on a text which says that there is still room, still scope, for further cautious declines in short-term interest rates. I think they are rather precise answers on these two specific countries. I think they are very clear recommendations agreed upon by the ministers of finance of these countries.

QUESTION: *Mr. Camdessus, how far do you perceive there has been a change in the question of the SDR? Has there been, in your mind, any progress over the last few days toward your wish, in particular, for something to resolve the equity problem in regard to the new members? In connection with that, what are your views of what seems to be an alternative suggestion of raising the access limits?*

Also, I was very surprised listening to Mr. Maystadt's introduction. If I heard you correctly, I think you said that among the systemic issues to be considered is a higher degree of discipline, particularly in the exchange rate system. Could you perhaps be a bit more precise as to what exactly is being driven at?

CAMDESSUS: On the first point you have mentioned, yes, I see some movement here. First, I have the distinct impression that all countries want to settle the so-called equity issue. There is still disagreement on the way it should be done. The broad majority would like to settle it through [an SDR allocation], which would give an adequate stake to the 37 new members in the system but not require a change of the Articles. Another group would prefer to change the Articles. Of course, we will continue to work on these issues, especially to see the pros and cons of both systems and where the final consensus will appear.

Second, there is very broad interest in what is alluded to here under the "ways to address the situation"—that is, methods to allow countries in a position to do so to mobilize their own SDRs in support of Fund programs. These are the so-called cofinancing trust accounts [CTAs] on which I commented a few days ago. I personally see great importance in this initiative, as it offers to developing countries with strong exchange reserves the opportunity to participate in the broad global business of the Fund by assisting countries in difficulties, no matter what country grouping they belong to. These two things, at least, are very important, and the wish of all to continue their work and to reach a conclusion in Madrid or before Madrid. On a previous occasion, one year ago, we would have been happy with the decision only to continue studies in general. Here we have a much more precise working program indeed.

On the issue of raising access versus SDR allocation, well, things are not so clear. It appears that there is a group of countries where increased access might do the job, but we have another group of countries concerned about too much involvement by the Fund in this business, concerned about the monetary character of the Fund, concerned about its catalytic role, and they prefer to be cautious about access. They may prefer a mix of instruments working there—SDRs, CTAs, increased access, all of that—together with more involvement from other multilateral institutions and bilateral donors, as well as—and all agree on this—stronger policies for stabilization and reform in the interested countries.

I think that on the other element, the Chairman would be better placed to answer than I am.

MAYSTADT: On your second question, as you know, we had the first discussion on the future work of the Interim Committee. At the end of this discussion, we requested the Managing Director and the Executive Board to examine several systemic issues raised by members of the Committee. Indeed, we agreed that this examination should include, among other things, a study of possible ways to introduce a higher degree of discipline in the present exchange rate system. Of course, at the present time, it is no more than that; it is no more than a request for a study.

QUESTION: *Could you return one more time to the question of the higher degree of discipline in the existing exchange rate systems. What is the goal of this inquiry? Disciplined to do what?*

MAYSTADT: Some members expressed the wish to have, if possible, more stable exchange relations, and we have just agreed to ask the Managing Director to study and examine whether there are some ways to reach this goal. We did not go further than that. It was an issue raised by some members, and we have decided to study it further.

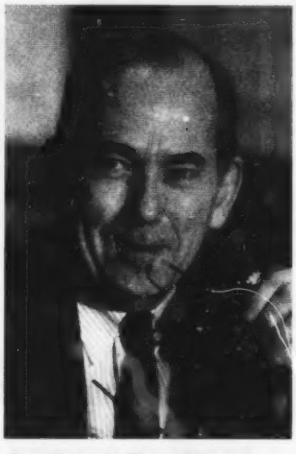
CAMDESSUS: This being said—to try to satisfy your curiosity a little bit more—we had this discussion at lunchtime. It would not be indiscreet, Mr. Chairman, to say that the suggestion came from the European part of the world. They have experience working together to stabilize exchange markets—an experience with successes and failures, an experience we have studied a lot here in the IMF—and it is very natural to try to see if such experiences can be broadened or if at the world level there are better ways of creating more stability on exchange markets, which is among the purposes of the IMF. My instinctive reaction would be to tell you that there are certainly more prospects today for addressing this problem effectively at the world level through strengthened surveillance and more effective coordination of policies, rather than sophisticated methods of collective, cooperative interventions in markets. But we will see what the experiences are, what is feasible, and what will be the respective role of better policies at the national level and stronger cooperation at the international level.

QUESTION: *Will the question continue to be examined in a European context?*

CAMDESSUS: No, a worldwide context.

QUESTION: *My question is on SDRs too. It is more a follow-up. This member country that was apparently very hostile to the idea of increasing SDRs, or to a large allocation of SDRs—I just add there is no shortage of reserves or liquidity in the world and that as such there is no need for that allocation. My question is, since you referred to the agreement—both you and the Chairman said there is the need for it, that the issue should be studied, and that there is only a difference in the way to do it or the cost to achieve it—does that mean that the majority of members agree that there is such a shortage of reserves or lack of liquidity and that they do not consider it advisable to wait for any shortage or lack of liquidity to show up?*

CAMDESSUS: There is more agreement on the need to correct the inequity—and here you have almost universal agreement—than on the long-term global need for reserves, on which point a few countries still hesitate. But for the others the case is truly compelling, truly overwhelming. When you have 55 percent of our membership with less than 12 weeks' reserves, when you have 67 percent of the countries in transition with less than 12 weeks' reserves, when you know perfectly well that these countries cannot borrow this money in the market, either because they do not have access to the market or because it would be too expensive for them, then you are in a situation where either you allocate reserves or these countries have to reduce their imports and their growth, to earn their reserves. But is that not close to economic nonsense at a time of still sluggish activity in many industrial countries—to constrain the imports of countries interested in buying industrial goods, for instance? This would be an absurdity. I believe that no government would really want that. But then, if you do not find a monetary instrument to answer this need for reserves in this huge part of the membership, then you have to look to budgetary instruments. And ministers of finance will certainly think twice before rejecting a monetary instrument they have at their disposal to do a monetary job. This is why I believe that one can perceive a growing interest in the SDR allocation. You will tell me that I am so much in this business that perhaps I am seeing more than there is and that possibly this is a kind of wishful thinking, but my distinct feeling is that there are many who share this analysis of the present situation.



Camdessus: The cooperative growth strategy has produced very good results.

QUESTION: *[Interpretation] Mr. Camdessus, it seems that the Interim Committee to a certain extent makes some recommendations and that the industrialized nations, the G-7, are going in a different direction. They speak about being in favor of fiscal policies. The Interim Committee talks about monetary policies that will help diminish pressure on interest rates. Yesterday, Mr. [Lloyd] Bentsen [U. S. Treasury Secretary]—and he ratified this today—said that he is in favor of growth because this means that there will be growth. So when will recommendations come to an end and specific policies be implemented so that interest rates, which I think is the key issue being touched upon tangentially at this meeting, will actually drop and will not continue to exert pressure on the developing countries, particularly those that are most indebted, such as the Latin American nations?*

CAMDESSUS: First of all, I am surprised that you, as well as some of your colleagues, see such a big difference between what the G-7 ministers

said yesterday afternoon and what we are telling you now. I was present at the meeting of the G-7 yesterday, and I was present at the meeting today. And my impression is that the ministers were saying the same thing yesterday as was said today. In fact, using almost the same words. I think that the ministers really do want interest rates to drop. Yesterday, the G-7 members were very worried about what happened in the long-term bond market, and yesterday, they were asking themselves what to do about it. I can tell you one thing they can do without making a mistake: since it is a long-term market, the long-term budget prospects have to be improved, so that over the long term there is no competition between the public and the private sector, and the markets will not be able to anticipate rising long-term rates.

Now, the ministers discussed this yesterday and accepted it. Of course, no minister likes to say that there are still things to be done in order to consolidate his budget, particularly when you are dealing with the United States. They have just made an enormous effort, and to tell them they have to work harder to improve from 97 to 98 percent is a bit hard for them to accept. But I have no doubt they intend to do it. I see no contradiction, in fact. What I do see is a determination on the part of all to bring this about, particularly for the long-term and short-term markets. Today's language is extremely clear. ■

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Yasushi Mieno, Governor of The Bank of Japan, and Antonio Fazio, Governor of The Bank of Italy

Interim Committee Communiqué

Ministers Welcome Progress in Implementing Growth Strategy, and IMF Surveillance

Following is the press communiqué issued after the meeting of the Interim Committee of the Board of Governors of the IMF on April 26:

1. The Interim Committee of the Board of Governors of the International Monetary Fund held its forty-second meeting in Washington, D.C. on April 25, 1994 under the chairmanship of Mr. Philippe Maystadt, Minister of Finance of Belgium.

2. The Committee welcomes the substantive progress in implementing the *cooperative growth strategy* set out in its Declaration of April 1993, and the Fund's intensification of its surveillance activities over members' economic policies. The successful conclusion of the Uruguay Round will give new impetus to world trade and provide an improved climate for economic growth worldwide. Early ratification of the agreement should now be sought in all countries concerned. The Committee welcomes the creation of the World Trade Organization and looks forward to close cooperation with the new organization.

3. Conditions for sustained growth of the *world economy* have improved: inflation in most industrial countries remains low; some countries have made significant progress toward medium-term budget consolidation; Japan has taken additional supportive action; short-term interest rates are lower; and exchange market tensions have abated in Europe. Many developing countries have made progress in stabilization and reform, allowing robust growth to be sustained. In several economies in transition, the reform process has advanced with the support of the Fund, including through the new systemic transformation facility (STF). The recent devaluation of the CFA franc, with the courageous accompanying measures taken in the context of Fund-supported programs, should facilitate the resumption of growth in the countries concerned.

4. In the *industrial world*, the recovery is well established in a number of countries, such as the United States, the United Kingdom, and Canada. Signs of recovery are evident in continental Europe and in Japan. Further action is required by all to ensure a more broad-based and sustained recovery. Where recovery is still weak, continued progress toward price stability would provide scope for further cautious declines in short-term interest rates; in Japan, fiscal policy is supporting domestic demand. In those indus-

trial countries where recovery is well established, monetary policies should be pursued in a way which sustains the recovery over the medium term and prevents a re-emergence of inflationary pressures, while fiscal imbalances must continue to be addressed decisively. In all countries, forceful implementation of plans for medium-term fiscal consolidation is necessary to strengthen national savings and raise growth and employment prospects. Disciplined monetary and fiscal policies will also help to alleviate pressures on long-term interest rates. The most pressing economic and social problem in many industrial countries remains high structural unemployment. It is therefore essential that the recovery be used to proceed decisively with labor market reforms that address the root causes of structural unemployment.

5. The Committee welcomes the continued strong growth performance of many *developing countries* that have pursued sound macroeconomic policies and implemented structural reforms, and notes their favorable prospects in the more open trading environment. It views with concern, however, the difficulties of those developing countries suffering from inadequate rates of savings and productive investment and inefficiencies in resource allocation, leading to stagnating or even declining living standards. Obstacles to sustained growth in these and other developing countries must be reduced, and their resilience to external shocks strengthened, through the pursuit of strong structural adjustment programs, the provision of adequate financial support from the international community, and improved access to industrial country markets. For low-income countries, a flexible approach to stock of debt reductions by official bilateral creditors and continued external assistance on concessional terms will also be required.

6. The Committee welcomes the initiation of operations of the *enlarged and extended enhanced structural adjustment facility* which will permit continued concessional support for low-income developing countries undertaking strong programs of adjustment and reform. It welcomes the broad-based financial support for this initiative among the membership, including many developing countries.

7. The benefits of sustained policies of stabilization and reform followed by a number of *economies in transition* are apparent. It is particularly noteworthy that growth is being restored in countries that have brought inflation down and persevered with major structural reforms, including institution building and the steady pursuit of enterprise restructuring. Conversely, the costs of delays in implementing comprehensive economic programs are starkly evident in other countries. The Committee welcomes Russia's adoption of a program to which the Fund has extended its support with a second drawing under the STF, and emphasizes the importance of the program's firm implementation, so as to pave the way for a more comprehensive program that could be supported by a stand-by arrangement.

Paul Martin, Minister of Finance of Canada (left), and Douglas E. Smee, IMF Executive Director for Canada.

8. The transition to market economies by a large group of countries is a task of historic proportions deserving the full and concerted support of the international community. The guiding principle must remain that where there are assurances of strong policies, there is adequate *financial support*. The Committee encourages the Fund to continue to play a central role in this process, including, if needed, through increased access to its own resources, commensurate with the strength of programs. In this endeavor, the monetary character and the catalytic role of the Fund must be safeguarded, and the Committee calls for the continued participation and support of all potential bilateral and multilateral creditors and donors in providing adequate and timely assistance, in conjunction with the Fund.

9. The Committee considered the report by the Managing Director on an *SDR allocation*, including ways to address the situation of members that have not participated in previous SDR allocations and methods to allow countries in a position to do so to mobilize their own SDRs in support of Fund programs. The Committee requests the Executive Board to continue to work on SDR issues and to make its recommendations to the next Committee meeting.

10. The Committee discussed its *future work*, particularly with regard to systemic issues and the strengthening of the Committee's contribution to the effective exercise of surveillance and economic policy coordination. It requests the Executive Board to examine these issues and to report back by its next meeting, to be held in Madrid, Spain on October 2, 1994. ■

Development Committee Communiqué

Record Flows to Developing Countries in 1993

Following is the press communiqué of the Development Committee of the Boards of Governors of the World Bank and the IMF, issued in Washington on April 26:

1. The 48th meeting of the Development Committee was held in Washington D.C. on April 26, 1994, under the chairmanship of Rudolf Hommes, Minister of Finance and Public Credit of Colombia. Lewis T. Preston, President of the World Bank, Michel Camdessus, Managing Director of the International Monetary Fund, Willy W. Zapata, President of the Banco de Guatemala and Chairman of the Group of 24, and Peter Mountfield, Executive Secretary, took part in the meeting. Observers from a number of international and regional organizations also attended.

Resource Flows

2. Ministers welcome the increased flows of resources to developing countries; 1993 was another record year. Particularly noteworthy was the sustained growth in private flows, which went mainly to the faster-growing and outwardly oriented countries which have implemented successful reforms. Similarly, much of the increase in official flows has been concentrated on nonconcessional loans to middle-income countries. Much of the concessional official development assistance has been targeted on poorer countries, although its total increased only modestly in 1993 and the outlook continues to be unfavorable. In that connection, Ministers welcome the progress made and the increased amounts pledged at last week's meeting on the Special Program of Assistance for Africa, and the recent extension and enlargement of the IMF's Enhanced Structural Adjustment Facility.

Chen Yuan, Deputy Governor, People's Bank of China (PBC) (left); Zhang Ming, IMF Executive Director for China; and Li Ruogu, Acting Director, Department of International Financial Organizations, PBC.

Population

3. The Committee reviewed some of the issues which will be raised at the forthcoming United Nations Conference on Population and Development to be held in Cairo in September 1994. They welcomed the Secretary-General of the Conference, Dr. Nafis Sadik, who addressed their meeting.

4. *Trends.* The world's population has grown by 1.7 billion in the past two decades. Almost all the increase was in the developing countries. The total population now stands at nearly 5.7 billion, about a billion of whom still live in poverty. Although the rate of growth is now slowing down, another 2.8 billion will be added to the total by 2025, on the current United Nations "most likely" projections. On this basis, world population will probably double in less than 50 years. Ministers agree that the massive economic, social, political and environmental consequences of these changes cannot be ignored.

Konstantin Kagalovsky (left), IMF Executive Director for Russia, and Aleksandr Shokhin, Deputy Prime Minister of the Russian Federation.

5. *Policies.* Ministers believe that an integrated population policy in developing countries must recognize the links between economic growth, population, poverty reduction, health, investment in human resources and environmental degradation. All couples and individuals have the right to decide freely and *responsibly* on the number and spacing of their children. Family planning is only one of the available instruments and needs to be seen in the broader context of changing social patterns and the increased awareness of women's role. Population programs are therefore becoming increasingly diverse, depending on the

stage of the demographic transition in each country. Moreover, experience demonstrates that improved education and employment prospects (particularly for girls), improved health, and increased income all tend to reduce the birth rate. Institutional arrangements for the delivery of services may need to be strengthened, and must be tailored to local conditions and needs, taking full advantage of available non-governmental and private sector organizations. They must pay full regard to the social and cultural traditions of each country.

6. *Priorities.* Ministers note that the Cairo Conference will seek to establish clear and realistic objectives for future population policy. Without prejudging the outcome of the Conference, they agree that three objectives in particular deserve special attention:

- First, improvements in the primary school enrollment rate in low-income countries to achieve universal primary education;
- Second, improving access to family planning and related health services, estimated by UNFPA to require a doubling of investments by the year 2000;
- Third, reductions in maternal and child mortality in developing countries.

7. *Developing Countries.* In general, the resource requirements are affordable, compared with other major expenditure programs. Many developing economies can meet the costs. In some cases costs are already covered by user fees. But for the poorest people, continued public support will be essential, and is justified by the benefits. Ministers agreed that developing countries should consider giving these three objectives priority within total budgets.

8. *Donors.* The poorest countries will still need help from donors. Bilateral and multilateral donors currently contribute about $1 billion a year to population programs in developing countries. Ministers hope that many individual bilateral donors will be able to improve the present average 1.25 percent share of existing aid budgets allocated to population programs, as well as their support for health and education.

Development Committee Chairman Rudolf Hommes (left) and World Bank President Lewis Preston at Development Committee press conference.

9. *The World Bank.* At the multilateral level, Ministers welcome the increasing share of the World Bank's social sector programs which have risen from 6 percent to 16 percent of the total portfolio in the past five years. Within this program, about $1.8 billion annually is currently allocated to population, health and nutrition, and $1.9 billion to education. Much of this affects the demand for population services indirectly. There are currently ten or more projects a year with significant direct population components, costing $200 million, concentrated mainly in the poorest developing countries. Ministers welcome the Bank's readiness to respond rapidly to requests for more assistance in this field. Ministers recognize that the Bank is not the principal organization concerned with population, but that its policy dialogue and wider operations give it a unique opportunity to promote population policies. They therefore call on the Bank, other donors, the other multilaterals such as UNFPA, and the borrowing governments to collaborate fully in operations and in mobilizing the institutional and financial resources needed; and re-evaluate their efforts following the Cairo Conference.

10. *Migration.* Ministers discussed the related issue of international migration, and its social, political and financial consequences for importing and exporting countries alike. They note that relatively little is known about the nature of these issues. Ministers noted the need for policies addressing these issues. They call for more policy-oriented research on migration and closer collaboration between the different international agencies concerned.

Trade

11. *Impact of the Uruguay Round on the Developing Countries and Countries in Transition.* Ministers greatly welcome the successful conclusion of the Uruguay Round and the agreements reached at Marrakesh and call for their rapid ratification and full implementation. These agreements reduce the risk of a relapse into protectionism, which would have greatly damaged many de-

veloping countries and countries in transition. They open up the prospect of faster economic growth for the world as a whole. All countries stand to gain. For countries to reap the full benefits from the Round, it is essential that they maintain stable macroeconomic environments and intensify their structural reform programs and trade liberalization, while improving their access to world markets.

12. Ministers note that some developing countries may be adversely affected in the transition to the new world trading system, by the loss of preferences or by higher prices for food imports, although these effects will only be felt gradually, leaving time for adjustment. They urge the Bank and the Fund to take account of these possible adverse effects in designing country assistance strategies and operational support for the affected countries.

M'Hamed Sagou of Morocco will be the next Chairman of the Development Committee.

13. Ministers welcome the creation of the new World Trade Organization. They urge the WTO, the Bank, and the Fund to cooperate fully and, within their own areas of responsibility, to help developing countries and countries in transition to take advantage of the new market opportunities. They also hope that all developing countries and countries in transition will soon join, so as to increase market access for their exports. They note that both the Bank and the Fund are engaged in fuller study of the impact of the Round, of future trade policy, and of their own future activities in the trade area. Ministers will resume discussion of these questions at their next meeting.

14. *Commodities.* Ministers also reviewed recent work in the Bank and the Fund on commodity prices. They agree that despite signs of a modest recovery in the short term, prices are unlikely to return to the levels of the 1970s and early 1980s. Given these uncertainties, Ministers agree it would be prudent not to assume an improvement in the long term, and wise to err on the side of caution.

15. Ministers agree that if price shocks are expected to be only temporary, then provision of compensatory finance may be appropriate. But if the fall in prices is expected to be permanent, then an adjustment-oriented response should not be deferred in the hope of a recovery. Ministers therefore believe that developing country governments should continue to diversify their economies. They will need the ongoing support of the World Bank, the Fund and the donor community. Ministers call on the Bank to explore additional measures in its investment work in this area. The continuing volatility of prices also requires the maintenance of contingency measures to safeguard programs supported by the Fund.

16. Ministers note that few international commodity agreements have maintained price levels in the face of falling demand, increased production, and lower costs. Government price stabilization schemes do not generally work well when commodity prices are expected to fall further or remain low; they tend to create distortions and place considerable strain on government budgets. For many countries and products, hedging instruments in commercial futures markets now permit private agents to protect themselves against price fluctuations, although there remain a number of legal, financial, and technical barriers. Ministers welcome the technical assistance being given by UNCTAD [United Nations Conference on Trade and Development], the World Bank and other agencies, to help smaller producers overcome these obstacles and take advantage of such markets. They welcome the studies being undertaken by the Bank of new guarantee mechanisms which would permit these poorer and less creditworthy countries to undertake market-based hedging operations.

Development Banks

17. The Committee agreed in principle to establish a small Task Force to review the development role being played by the Multilateral Development Banks, including the World Bank, and the four main regional banks. This Task Force, whose Chairman, terms of reference, and composition will be agreed after consultation with the governments, and will aim to complete its work by October 1995.

Chairman

18. The Committee selected Mr. M'Hamed Sagou of Morocco to be its next Chairman in succession to Mr. Rudolf Hommes of Colombia. The Committee expressed its warmest thanks to Mr. Hommes at the end of his period in the Chair.

Next Meeting

19. The Committee agreed to meet again in Madrid, Spain, on October 3, 1994, when it will discuss the question of Aid Effectiveness and the work on the World Bank and IMF in the light of the Uruguay Round. ■

Group of 7 Statement

Bentsen Notes Positive Growth Trends, Stresses Need to Ensure Global Recovery

Following is the text of a statement by U.S. Treasury Secretary Lloyd Bentsen on behalf of the Group of Seven (G-7), issued on April 25 in Washington:

One year ago, we agreed on a cooperative global strategy for sustained expansion. I want to review how much we have accomplished, and how far we still have to go.

Last April, we put concluding the Uruguay Round at the top of our must-do list. Ten days ago, in Marrakesh, the nations of the world signed up. I have seen many trade agreements. This is the most important and certainly the most complex. It shows that it is possible for us to work together to achieve results. It will increase trade, allow our economies to grow faster, raise living standards, and create more high-paying jobs.

Now we must expeditiously ratify it. In the United States, we expect Congressional passage this year, allowing us to implement the agreement by January 1, 1995.

Last year, we also emphasized the importance of fiscal restraint in countries with high budget deficits.

The United States put in place a five-year $500 billion deficit reduction program, and I am very pleased to report we are ahead of schedule with it. The IMF estimates our fiscal deficit, in relation to GDP, will be cut by more than half between its 1992 peak and 1995. Next year, we will have the lowest deficit-to-GDP ratio among the G-7, excluding only Japan. And we're not alone. All G-7 countries will show reductions by 1995.

Another positive sign is the continued progress toward stabilization and reform in developing countries. I am encouraged by the Fund's projection for solid growth in Africa, and stronger growth in Latin America. In the former centrally planned economies, reform has been under way, and we are seeing the first benefits.

The upturn in the United States is gaining strength. The Fund has raised its forecast for growth to 3.9 percent this year, with a gradual deceleration in 1995. Growth in Canada and the U.K. also looks quite satisfactory.

Lloyd Bentsen: "We have reasons for somewhat greater optimism."

We also see some encouraging signs of recovery in continental Europe and Japan, although the IMF's projection for 1995 indicates growth is not expected to come roaring back on the basis of current policies. I hope the optimists are right. But a few signs do not establish a trend. Remember how many times optimism has turned out to be misplaced? It would be better to build on the actions taken thus far to ensure an early recovery.

Japan has put in place several fiscal expansion programs. All have helped, but all have been overtaken by weakness in the economy as a whole. I think it is vitally important for Japan, and for the world economy, that Japanese policies produce strong growth in domestic demand and a substantial reduction in its external surpluses.

In Europe, I welcome the latest round of interest rate reductions. Given the weakness of growth in these economies and the significant decline in inflation, I hope monetary easing will continue. Double-digit unemployment rates there suggest the urgency of this.

As for long-term rates, they have risen in all major financial markets this year. An important factor appears to be revised expectations about economic performance and policies, especially in the industrial world—though the movements may have been exaggerated by technical market features.

Inflation remains low in all the major economies. In my view the fundamentals that drive interest rates still provide room for further reductions, particularly in countries with weak growth.

I think we also need to improve the way our economies work by adopting structural reform measures. The Jobs Conference held in Detroit was remarkable for its consensus on the need for action.

And one more point: I am not per-

suaded that there is a general shortage of reserves or liquidity in the world economy. Therefore, I see no basis for a large general allocation of Special Drawing Rights—SDRs.

Let me summarize by saying that recovery remains slow and tentative in some important regions, and more needs to be done to ensure that the long-forecast upturn makes its appearance. But we have reasons for somewhat greater optimism. With continued efforts to implement the growth strategy we embarked on last spring and to reduce trade barriers, I am confident we will deliver more growth, more trade, and more jobs for the world's economy. ■

Hans Tietmeyer, President and Chairman of the Board of Bundesbank, and Theo Waigel, German Finance Minister.

Group of 10 Communiqué

Ministers Cite Well-Functioning Financial Markets

The following press communiqué of the Ministers and Governors of the Group of 10 (G-10) was issued in Washington on April 25:

1. The Ministers and Central Bank Governors of the countries participating in the General Arrangements to Borrow (GAB) met in Washington on April 25, 1994. The meeting was chaired by Edmond Alphandéry, Minister of the Economy of France.

2. The Ministers and Governors had an exchange of views on matters to be discussed in the forthcoming meeting of the Interim Committee, on the basis of oral reports by the Managing Director of the IMF and the Chairman *ad interim* of Working Party No. 3 of the Organization for Economic Cooperation and Development's Economic Policy Committee.

3. The Minsters and Governors also had an exchange of views on recent developments in international financial markets on the basis of an oral report from the Chairman of the Group of Ten (G-10) Deputies. Ministers and Governors noted that the increase in volatility and the rise in yields that had occurred in bond markets worldwide so far this year should be seen against the favorable outlook for inflation. They agreed that, although movements of securities prices had at times been large, no systemic problems had emerged. Financial markets had functioned well, coping with the increased volume of transactions without creating tensions in payment or settlement systems. Ministers and Governors stressed, however, the need to improve knowledge of the working of the innovative segments of the financial markets that have been expanding rapidly and to strengthen international cooperation in gathering relevant statistics and assessing their systemic implications. In this regard, they noted that work is already underway in several international fora and at a national level, in both official and private spheres, and in due course they expect to review the results of these studies. ■

Jean-Claude Trichet, Governor, Banque de France (left); Edmond Alphandéry, Chairman of the G-10 and Minister of Economy of France; and Managing Director Camdessus.

WEO Sees Improved Prospects for Recovery

On the eve of its Spring Meetings, the IMF previewed its semiannual World Economic Outlook (WEO) *with a press briefing by its Economic Counsellor and head of the Research Department, Michael Mussa. The following article features Mussa's opening remarks and highlights some of the questions and answers of the April 20 press conference. A more detailed review of the Spring 1994* WEO *will be included in the May 16 issue.*

In his opening remarks, Mussa said that the Spring *World Economic Outlook (WEO)* projections offered greater assurances that "the world economy will enjoy a recovery in 1994 and beyond." The projections reflect confidence in continued strong growth among the developing countries and a belief that the outlook for a recovery among the industrial countries has firmed. Although impressive growth could be expected to characterize the developing countries as a group, Mussa cautioned that the performance of the developing countries remained strikingly uneven, with many individual countries, including some of the poorer developing countries, experiencing a relatively low rate of per capita growth—particularly those countries that had not yet embraced effective economic stabilization and reform efforts. Likewise, declines in oil prices, despite modest recent upturns, are expected to continue to benefit oil importing developing countries but to create "significant economic difficulties" for oil exporters.

For the industrial countries as a group, the *WEO* projections broadly mirror those made in the fall of 1993. The overall estimates, however, include revisions in the projected performance of individual countries, notably stronger-than-expected growth in the United States and a significant downward revision in the forecast for Japan. The IMF sees the outlook for continental Europe brightening, with signs of a bottoming out of the recession. But it also projects a sluggish recovery in 1994—one that will likely continue to raise unemployment rolls in 1994 and may not dramatically reduce unemployment even in 1995.

Mussa noted that Japan, too, is expected to see "some recovery" in the first half of 1994, but added that this recovery is also expected to be sluggish, particularly by Japanese standards.

By contrast, strong growth in recent months in the United States had boosted actual output very close to potential output. Continued strong growth at that level would likely fuel inflationary pressures by late 1994 or 1995. Mussa observed that the U.S. Federal Reserve, however, had clearly begun to take steps to slow the pace of demand.

Press questions covered a broad range of topics, including rising long-term interest rates, the appropriate stance of U.S. monetary policy, the need for flexible labor markets, and the impact of the Uruguay Round of multilateral trade negotiations.

Selected IMF Rates

Week Beginning	SDR Interest Rate	Rate of Remuneration	Rate of Charge
April 18	4.07	4.07	4.52
April 25	4.11	4.11	4.56

The SDR interest rate, and the rate of remuneration, are equal to a weighted average of interest rates on specified short-term domestic obligations in the money markets of the five countries whose currencies constitute the SDR valuation basket (the U.S. dollar, weighted 40 percent; deutsche mark, 21 percent; Japanese yen, 17 percent; French franc, 11 percent; and British pound, 11 percent). The rate of remuneration is the rate of return on members' remunerated reserve tranche positions. The rate of charge, a proportion of the SDR interest rate (currently 111 percent), is the cost of using the IMF's financial resources. All three rates are computed each Friday for the following week. The basic rates of remuneration and charge are further adjusted to reflect burden sharing arrangements. For latest rates, call (202) 623-7171.

Data: IMF Treasurer's Department

Long-Term Interest Rates

How worried, asked the first press questioner, was the IMF about the recent rise in long-term interest rates in the United States and Europe? Mussa replied that long-term interest rates appeared to have bottomed out last October in the United States, and in late December/early January in the other major industrial countries. The extent to which rising rates are now a concern may differ with circumstances. In the United States an unexpectedly strong recovery confounded many analysts. Growth estimates have been revised upward by 1¼ percentage points to almost 4 percent for 1994. Not unexpectedly, Mussa said, credit markets have begun to react to that strengthening of growth, particularly in an economy already operating near potential.

Mussa noted that the credit market response reflected both the expected rise in the real cost of borrowing and some concern that inflationary pressures were now perceived to be nearer at hand than previously anticipated. Much of the rise in U.S. long-term rates, including the rise subsequent to the Federal Reserve's recent increases in short-term rates, "needs to be viewed as a normal, and not necessarily undesirable, reaction to the strengthening of growth prospects in the United States," Mussa said, adding that a degree of market overreaction may also be at work. "If the Federal Reserve is successful in keeping inflation rates in the United States in the

range of 3 percent, then there wouldn't appear to be any reason for long-term interest rates to go much higher than they have already, even assuming that over the course of the remainder of this expansion—which could go on for several years—there is likely to be some further firming of short-term interest rates."

In Europe, Mussa observed, the upturn in interest rates may reflect a reversal of earlier market overreaction. In anticipation of rapid declines in short- and long-term rates, he observed, investors had put money into European long-term bonds. When reductions in short-term rates continued in gradual increments and when other pressures caused highly leveraged market investors to reverse their positions, long-term rates increased. Mussa thought that European long-term rates could reasonably be expected to decline somewhat further.

Mussa: The performance of developing countries remains strikingly uneven.

Federal Reserve's Policy Stance

Referring to the *WEO*'s counsel that the United States should now follow "a more neutral stance" in its conduct of monetary policy, a reporter asked whether "neutral" could be construed to entail further increases in short-term interest rates. Mussa replied that U.S. monetary policy had remained quite easy over the course of the recovery, but now with output nearing potential, inflationary pressures—though absent at the moment—could be expected to emerge if demand growth continued at the average pace of the past two years.

Since monetary policy affects the economy with a lag, monetary policy must be forward looking, Mussa said. He observed that the Federal Reserve had acted wisely to shift from an easy stance to a more neutral one. Its current actions are not so much a putting on the brake, as an "easing back on the accelerator." Mussa termed the measures already taken "significant," and suggested that given the sizable increase in long-term rates—and the likely impact that higher long-term rates would have in themselves—that perhaps only a gradual, modest further increase would be required to reach neutrality.

Labor Market Flexibility

Typically, the *WEO*'s third chapter is devoted to a particularly topical and important policy issue. In the latest edition, the third chapter deals with labor market reforms, a topic that caused one reporter to query why the IMF had seemed to stray from its traditional macroeconomic domain to address this sectoral issue, and why its examination seemed to favor the "American" model over the "European" model.

In his response, Mussa cited one of the fundamental purposes of the IMF—to promote strong economic growth—as the basis for the IMF's ongoing concern about the functioning of labor markets in industrial countries. A progressive increase in structural unemployment, particularly in Europe, has played a major role in retarding economic growth in Europe, he noted, so that structural problems in the labor markets are very much a concern to the IMF and an integral part of its surveillance function. Flemming Larsen, Assistant Director of the Research Department and responsible for the World Economic Outlook project, added that the IMF is also attentive to labor market problems because they "very much affect the ability of countries to adjust to adverse disturbances relatively quickly with minimal losses of output and employment, and without excessively adverse effects on inflation or on macroeconomic imbalances in general."

The American and European models are often caricatured, said Mussa, as ones that foster either a large number of poor employed people (the "American" model) or a large number of relatively well off unemployed people (the "European" model). The *WEO* emphasized the type of adjustments that could be made to increase flexibility and effectiveness and expand the level of employment. These adjustments may entail more flexible levels of compensation and types of employment. If these adjustments have an unacceptable impact on income distribution, he noted, "the tax and transfer system is generally a better means of addressing these problems than distortions of the labor market, which contract the level of output and income for the economy as a whole."

The IMF's concerns extend beyond the strength of the current recovery, Larsen added, to the question of how the next expansion could be used—more wisely and effectively than the last—to reduce high levels of unemployment. Europe has seen high levels of cyclical unemployment translate into even higher rates of structural unemployment. It was not the IMF's intent to promote the American model, Larsen said, but to learn why the U.S. economy seemed to demonstrate a

much greater capacity to generate jobs and reduce unemployment following cyclical disturbances. The European labor markets could benefit from aspects of the American model, such as the extent to which market forces increase demand for labor and make supply flexible under changing market circumstances, he observed. The IMF believed that "European labor markets would need to move toward greater consistency between compensation and productivity." This would help clear the labor market at lower rates of unemployment and also help Europe safeguard progress on inflation, and—very important in the context of the phased monetary and economic union—help individual economies become more resilient to asymmetric disturbances when the exchange rate is no longer available as a possible policy instrument.

Uruguay Round

In response to a query about whether a "new protectionism" had arisen after the signing of the Uruguay pact and whether the IMF was still convinced that the Uruguay Round would benefit the developing countries, Mussa noted that the Uruguay agreement was neither final nor perfect, but it would, nonetheless, greatly benefit the developing countries. He also noted that the new protectionism was hardly a new phenomenon. It was important not to lose sight of the fact that the volume of trade continues to grow on a global basis at twice the rate of world economic activity and that trade among developing countries is growing strongly.

Mussa also stressed that developing countries can benefit—and in some cases have already done so—from unilaterally liberalizing their trade regimes. Not only does liberalization stimulate the volume of trade, it also provides an impetus to overall economic growth. Typically, restrictive trade practices most harm the countries that impose them. ■

The published version of the Spring 1994 *World Economic Outlook* will be available at the end of May.

Stand-By, EFF, SAF, and ESAF Arrangements As of March 31, 1994

(million SDRs)

Member	Date of Arrangement	Expiration Date	Amount Approved	Undrawn Balance
Stand-by arrangements			**1,564.06**	**914.44**
Cameroon	March 14, 1994	September 13, 1995	81.06	59.15
Central African Rep.	March 28, 1994	March 27, 1995	16.48	5.77
Chad	March 23, 1994	March 22, 1995	16.52	6.20
El Salvador	May 10, 1993	December 31, 1994	47.11	47.11
Estonia	October 27, 1993	March 26, 1995	11.63	9.30
Gabon	March 30, 1994	March 29, 1995	38.60	38.60
Hungary	September 15, 1993	December 14, 1994	340.00	283.30
Kazakhstan	January 26, 1994	January 25, 1995	123.75	111.38
Kyrgyz Republic	May 12, 1993	April 11, 1994	27.09	15.48
Latvia	December 15, 1993	March 14, 1995	22.88	22.88
Lithuania	October 22, 1993	March 21, 1995	25.88	20.70
Moldova	December 17, 1993	March 16, 1995	51.75	47.25
Niger	March 4, 1994	March 3, 1995	18.60	7.49
Panama	February 24, 1992	September 23, 1994	74.17	19.60
Poland	March 8, 1993	April 8, 1994	476.00	119.00
Senegal	March 2, 1994	March 1, 1995	47.56	16.65
Viet Nam	October 6, 1993	October 5, 1994	145.00	84.60
EFF arrangements			**4,504.08**	**1,774.26**
Argentina	March 31, 1992	March 30, 1995	2,483.15	556.10
Egypt	September 20, 1993	September 19, 1996	400.00	400.00
Jamaica	December 11, 1992	December 10, 1995	109.13	54.75
Pakistan	February 22, 1994	February 21, 1997	379.10	341.20
Peru	March 18, 1993	March 17, 1996	1,018.10	375.41
Zimbabwe	September 11, 1992	September 10, 1995	114.60	46.80
SAF arrangements			**110.25**	**36.92**
Comoros	June 21, 1991	June 20, 1994	3.15	0.90
Ethiopia	October 28, 1992	October 27, 1995	49.42	14.12
Rwanda	April 24, 1991	April 23, 1994	30.66	21.90
Sierra Leone	March 28, 1994	March 27, 1995	27.02	--
ESAF arrangements			**2,712.83**	**1,445.36**
Albania	July 14, 1993	July 13, 1996	42.36	33.89
Benin	January 25, 1993	January 24, 1996	51.89	27.18
Bolivia	July 27, 1988	May 31, 1994	163.26	13.61
Burkina Faso	March 31, 1993	March 30, 1996	48.62	30.94
Burundi	November 13, 1991	November 12, 1994	42.70	23.49
Côte d'Ivoire	March 11, 1994	March 10, 1997	333.48	273.93
Equatorial Guinea	February 3, 1993	February 2, 1996	12.88	10.12
Guinea	November 6, 1991	November 5, 1994	57.90	40.53
Honduras	July 24, 1992	July 23, 1995	40.68	27.12
Kenya	December 22, 1993	December 21, 1994	45.23	22.62
Lao P.D.R.	June 4, 1993	June 3, 1996	35.19	23.46
Lesotho	May 22, 1991	August 1, 1994	18.12	--
Mali	August 28, 1992	August 27, 1995	79.24	44.19
Mauritania	December 9, 1992	December 8, 1994	33.90	8.48
Mongolia	June 25, 1993	June 24, 1996	40.81	22.26
Nepal	October 5, 1992	October 4, 1995	33.57	22.38
Pakistan	February 22, 1994	February 22, 1997	606.60	505.50
Sierra Leone	March 28, 1994	March 27, 1997	88.78	25.28
Sri Lanka	September 13, 1991	September 12, 1994	336.00	112.00
Tanzania	July 29, 1991	July 28, 1994	181.90	96.30
Uganda	April 17, 1989	June 30, 1994	219.12	--
Zimbabwe	September 11, 1992	September 10, 1995	200.60	82.10
TOTAL			**8,891.22**	**4,170.98**

Note: EFF = extended Fund facility.
SAF = structural adjustment facility.
ESAF = enhanced structural adjustment facility.
Figures may not add to totals because of rounding.

Data: IMF Treasurer's Department

From the Executive Board . . .

GABON: Approval of Credits

The IMF today approved credits for Gabon for an amount equivalent to SDR 60.1 million (about $85 million), to support the Government's economic and financial program for 1994. Of the total, SDR 38.6 million (about $55 million) is being made available under a one-year stand-by arrangement, and a further SDR 21.5 million (about $30 million) will be disbursed on April 5, 1994 under the compensatory and contingency financing facility (CCFF).

Background

Owing to the continuing slump in oil revenues and a heavy debt burden, Gabon's economic and financial situation has become increasingly difficult. Access to external financing has been sharply curtailed in the past two years, with a buildup of large domestic and external payments arrears. Slow progress was made in containing public spending, strengthening non-oil receipts, and reforming public enterprises. Financial strains and the lack of competitiveness have deterred non-oil private investment and held back the country's growth.

Medium-Term Strategy

Faced with this situation, the Gabonese Government has formulated a program to turn the economy around and restore adequate and balanced growth. The key element of this program is the realignment of the exchange rate of the CFA franc by 50 percent against the French franc effective January 12, 1994. Together with a package of supporting measures in the program, this realignment should enhance competitiveness, provide an opportunity to improve Gabon's growth prospects, and diversify the economic base of the country away from the predominant oil sector. Within this context, the medium-term objective is for real non-oil GDP growth of about 3.5 percent, or about 1 percent per capita. After an initial surge in 1994, inflation is expected to subside and return to its previously low levels. Fiscal policy in 1994 will focus on a strict control of expenditure, thus achieving a significant increase in the primary surplus in 1994 and 1995.

Structural Reforms

To strengthen competition, Gabon's trade liberalization policy will be continued. In this context, the Government has sharply reduced customs duties as part of a comprehensive reform of the tariff structure. Nontariff restrictions as well as tax and trade privileges granted to enterprises will be reviewed in 1994. The management of public enterprises will be strengthened, and their financial relations with the Government clarified. In addition, the functioning of the labor market will be improved.

Addressing Social Costs

To protect the poorest population groups, the Government has introduced measures to limit the price increases for energy products and necessities and to improve the availability of basic social services in the areas of health, housing, and education. The 1994 budget allows for a temporary subsidization of necessities such as bread, and improved distribution networks will also contribute to mitigate price increases.

Prospects

Over the long term, Gabon needs to sustain a large and efficient investment effort in both the public and private sectors. The authorities' strategy of successful fiscal adjustment should enable them to sharply increase investment and to improve the investment climate. In the short term, however, financing difficulties remain, given the heavy external debt burden at a time of low world oil prices. In view of these difficulties and the country's adjustment effort, the support of external donors and creditors over the medium term are crucial to the success of Gabon's economic strategy.

Gabon joined the IMF on September 10, 1963, and its quota is SDR 110.3 million (about $156 million). Its outstanding use of IMF financial resources currently totals SDR 30.2 million (about $43 million).

Press Release No. 94/22, March 30

Gabon: Selected Economic Indicators

	1992	1993[1]	1994[2]	1995[2]	1996[2]
			(percent change)		
Real economic growth	−2.4	2.6	−0.8	1.4	1.7
Consumer price deflator	0.7	1.2	31.7	8.5	5.9
			(percent of non-oil GDP)		
Primary budget balance	1.6	0.6	4.3	14.1	14.4
Overall budget balance (including grants)	−7.4	−8.3	−10.3	0.7	2.6
Investment	30.7	30.8	43.6	41.3	39.4
			(percent of GDP)		
External current account balance (including public transfers)	−1.5	−2.7	−4.5	1.4	2.6

[1]Program.
[2]Projected.

Data: Gabonese authorities and IMF staff

SRI LANKA: ESAF

The IMF has approved a third annual loan of SDR 112 million (about $158 million) under the enhanced structural adjustment facility (ESAF) for Sri Lanka. The loan will be disbursed in two equal semiannual installments, with the first available on April 15, 1994.

Background

Sri Lanka has made considerable efforts to improve financial stability and external viability and correct structural weaknesses under its first two annual ESAF programs. However, despite significant strides in several areas, progress in tackling the crucial problem of double-digit inflation remains elusive. Performance under the second annual ESAF program was mixed. The growth in output was favorable but, because of slippages in implementing financial policies and insufficient sterilization of unanticipated capital inflows, the targeted

reduction in inflation was not achieved. Sri Lanka's external position, however, showed marked improvement reflecting a strong growth in exports and large capital inflows.

Program for 1994

To accelerate the reform process under the 1994 economic program, the most urgent task is to secure a substantial reduction in the persistently high inflation rate while maintaining an adequate rate of growth. To this end, the program's objectives are that real GDP growth be maintained at 5.8 percent, the inflation rate decline to 7.5 percent, the current account deficit be held to around 6.5 percent of GDP, and that reserves increase to the equivalent of 5.3 months of imports.

The program seeks to achieve a strengthening in the fiscal position by reducing the budget deficit to 6.5 percent of GDP in 1994 from an estimated 8 percent in 1993 through a combination of revenue measures, expanding tax reforms, and actions to generate budgetary savings on current expenditure. Particular attention is being paid to improving both the magnitude and composition of capital spending. To target an adequate level of high-quality public investment, the authorities have formulated a core investment program and have identified low-priority projects for elimination that will help to finance this core program. The Government is taking steps to ensure full financing and proper monitoring of the core program, which will focus on strengthening the physical infrastructure. Monetary and credit policies will primarily be directed at securing a significant reduction in the inflation rate.

Structural Reforms

The 1994 program foresees further significant progress toward completing the reform of the external sector, with tariff rationalization continuing which will, when completed, bring rates into a three-band system. Also, with the removal of all remaining restrictions on payments and transfers for current international transactions, Sri Lanka formally accepted the obligations of Article VIII, sections 2, 3, and 4 of the IMF's Articles of Agreement on March 15, 1994 (see Press Release No. 94/18). The authorities also plan to enhance the efficiency of financial intermediation and to improve indirect monetary management, and actions will be taken to strengthen the operational autonomy and supervisory capacity of the Central Bank. The privatization program, which has been carried out successfully in recent years, will be continued.

Sri Lanka: Selected Economic Indicators

	1990	1991	1992	1993	1994[1]
			(percent change)		
Real economic growth	6.2	4.6	4.3	5.7	5.8
Consumer price index	21.5	12.2	11.4	11.7	7.5
			(percent of GDP)		
Primary budget balance	–1.2	–2.0	–0.9	0.2	1.4
Overall budget balance (excluding grants)	–9.9	–11.6	–7.4	–8.1	–6.5
Investment	22.2	22.9	23.7	25.9	27.9
External current account balance (including public transfers)	–5.4	–7.5	–6.1	–5.3	–6.7

[1]Program.

Data: Sri Lankan authorities and IMF staff

Addressing Social Costs

The Government's economic program is expected to continue to have a substantial positive impact on poverty alleviation by maintaining economic growth, and thus employment generation, particularly in agriculture and labor intensive industries; reducing inflation; protecting investment in social infrastructure, particularly health and education; and improving the quality and effectiveness of welfare programs. For 1994, the Government is also taking a number of actions to improve the targeting of certain social welfare schemes, and has increased funding for assisting the indigent, the elderly, and orphans.

Challenge Ahead

The prospects for the medium and long term remain promising, provided the authorities adhere to the present policy framework. The external current account deficit appears sustainable on the basis of expected donor support, while Sri Lanka's external debt, which is mostly concessional, remains small relative to the productive base.

Sri Lanka joined the IMF on August 29, 1950 and its quota is SDR 303.6 million (about $429 million). Its outstanding use of IMF financing currently totals SDR 371.2 million (about $524 million).

Press Release No. 94/23, March 30

CAMBODIA: Quota Increase

The Board of Governors of the IMF has adopted a resolution authorizing a special increase in the IMF quota of Cambodia to SDR 65 million (about $92 million) from SDR 25 million (about $35 million). Because of Cambodia's protracted isolation from the IMF and the international financial community, its IMF quota had remained unchanged at SDR 25 million since 1970.

On October 4, 1993 Cambodia's limitation on using IMF financing was lifted following the clearance of its overdue financial obligations. At the same time, the IMF approved a drawing of SDR 6.25 million (about $9 million) under the systemic transformation facility (STF) to support Cambodia's 1993–94 economic reform program (see Press Release No. 93/44).

Press Release No. 94/24, April 4

LITHUANIA: Second STF Drawing

The IMF has approved a second drawing equivalent to SDR 25.875 million (about $36 million) by Lithuania under the systemic transformation facility (STF). The IMF approved Lithuania's first drawing under the STF (SDR 25.875 million) along with an SDR 25.875 million 17-month stand-by credit on October 22, 1993 (see Press Release No. 93/47).

Background

Since 1992 Lithuania has made considerable progress in converting from a centrally-planned to a market-based system, with technical and financial support from the IMF. In 1992 output declined by 38 percent and in 1993 the decline was held

to 16 percent, although during the latter part of the year economic activity stabilized. The inflation rate of over 1,000 percent in 1992 was reduced to 409 percent in 1993, and is now in the double digit range. Over the period there was also significant progress in privatizing state enterprises and liberalizing most prices, with the notable exception of energy.

Program for 1994

The objectives of the 1994 economic program, which is supported by the IMF stand-by credit and the drawing under the STF, are GDP growth of 4-5 percent, a reduction in the rate of inflation to a single digit annual rate by the end of 1994, and a widening of the external current account deficit from $192 million in 1993 to $330 million in 1994. The projected increase in the current account deficit reflects higher disbursements from the Organization for Economic Cooperation and Development (OECD) Group of Twenty-Four creditors and from international institutions for import financing. To these ends, the general government financial deficit will be kept below 1 percent of GDP, in part by adopting an 18 percent value-added tax effective May 1, 1994. There was a major change in Lithuania's monetary and exchange arrangements on April 1, 1994 with the establishment of a currency board. This change is expected to help fight inflation, bring about lower interest rates, and provide a strong framework for continued implementation of strict fiscal policies under the program.

Structural Reforms

Progress in the reform and privatization of the enterprise sector has been proceeding smoothly. Privatization of housing and agricultural enterprises is mostly complete, though land privatization continues to be hampered by the land restitution process; a land law, which will permit the emergence of a real estate market, has been approved by Parliament. About half of both large and small enterprises have already been privatized. In order to accelerate the privatization process, the Government has introduced legislation that would remove all preferential treatment for employees and managers in the privatization process, and would lift the restrictions on share ownership in agricultural processing enterprises. While the financial discipline imposed by a clear and credible bankruptcy procedure is not yet in place, a bankruptcy law is in force, and a number of important amendments to the legislation have been introduced. In mid-1993, a new trade regime replaced export licensing with tariffs for selected goods and reduced import tariffs for most goods. The Government is now moving to a near-uniform 10 percent import tariff, demonstrating strong commitment to outward-oriented development.

Addressing Social Costs

Lithuania has developed a new poverty line based on the cost of a subsistence basket, to which social benefits will be linked in the future. A broad package of pension reforms is envisaged for implementation on January 1, 1995 and would include a flat rate component and a contributions-related component, as well as an increase in the retirement age for men and women. Plans to reform unemployment benefits by narrowing eligibility and shortening the benefit period are also under discussion.

Challenge Ahead

Signs that output contraction in the state sector has ended, and that the private sector is flourishing, give grounds for cautious optimism that the recovery is underway in Lithuania. The recovery remains fragile, however, and the authorities must be vigilant in their efforts to foster a stable and predictable environment for economic activity if growth is to be sustained. Attainment of the objectives of the program will depend on the continued implementation of enterprise and financial reform, progress in the privatization process, fiscal discipline, and improvements to the social safety net. Timely disbursement of financial assistance from bilateral and multilateral sources will also be essential to sustain a substantial increase in imports under the program.

Lithuania joined the IMF on April 29, 1992, and its quota is SDR 103.5 million (about $144 million). Its outstanding use of IMF financing currently totals SDR 87.98 million (about $123 million).

Press Release No. 94/25, April 8

Lithuania: Selected Economic Indicators

	1992	1993	1994[1]
		(percent change)	
Real GDP growth	–37.7	–16.2	4.7
Consumer price index	1020.5	409.2	58.8
		(percent of GDP)	
Financial fiscal balance	0.6	0.2	–0.9
Overall fiscal balance	0.7	–5.2	–4.9
		(million U.S. dollars)	
External current account balance (excluding official transfers)	62	–192	–330

[1]Projected.

Data: Lithuanian authorities and IMF staff

BULGARIA: Stand-By Credit

The IMF today approved credits to Bulgaria for an amount equivalent to SDR 185.96 million (about $259 million), in support of the Government's economic and financial program for 1994. Of the total, SDR 69.74 million (about $97 million) has been made available under a 12-month stand-by credit, and a further SDR 116.22 million (about $162 million) is available immediately as the first drawing by Bulgaria under the systemic transformation facility (STF). A second STF disbursement of SDR 116.22 million will be available to Bulgaria provided that progress continues to be made in the implementation of the program.

Background

Bulgaria launched its transformation to a market economy in 1991 by freeing most prices and liberalizing the exchange system. Progress continued during 1992, particularly in reducing inflationary pressures. However, privatization of state-owned enterprises and other structural reforms proceeded slowly. During 1993, there was considerable deterioration in the fiscal and the current account balances, and inflation remained high.

Program for 1994

Bulgaria's 1994 program has been designed to achieve a turnaround in the economy by combining structural measures to revitalize and accelerate the trans-

formation process with financial stabilization measures. The main objectives of the program are to create the conditions for sustainable growth, to considerably reduce inflation, and to strengthen international reserves in anticipation of a debt and debt-service-reduction operation with commercial bank creditors. To these ends, the overall budget deficit will be sharply contracted, revenues will be strengthened in part by the implementation on April 1, 1994 of the value-added tax (VAT), and expenditure priorities will be redirected to increase needed outlays on structural reforms. Monetary and incomes policies will be oriented toward achieving an improvement in inflation performance.

Bulgaria: Selected Economic Indicators

	1991	1992	1993[1]	1994[2]
		(percent change)		
Real economic growth	−11.7	−5.4	−3 to −4	—
Consumer price index (end of period)	338.9	79.4	63.9	30.0
		(percent of GDP)		
Primary budget balance	3.4	1.2	−3.0	2.4
Budget balance (excluding deferrals)	−8.4	−6.9	−11.1	−6.2
		(billion U.S. dollars)		
External current account balance	−0.3	−0.4	−1.0	−0.8

[1]Preliminary. [2]Program estimates

Data: Bulgarian authorities and IMF staff

Structural Reforms

The structural reforms for 1994 include acceleration of the program through the implementation of a mass privatization plan for about 500 medium- and large-scale state enterprises. In addition, the Government is undertaking a recapitalization of banks and is in the process of finalizing a debt and debt-service-reduction agreement with commercial bank creditors. Progress is envisaged in completing the programs of restitution of agricultural land and of residential property, small shops and establishments, and industrial property. The program also includes a strengthening of bank supervision and credit ceilings on bank financing of selected heavily indebted state-owned enterprises.

Medium-Term Prospects

Over the medium term, Bulgaria is expected to significantly strengthen its external position and improve the prospects for external viability. This will require a further increase in the primary surplus of the government and the implementation of policies to harden budget constraints on state-owned enterprises. An appropriately balanced debt and debt-service-reduction operation is also a necessary element of the authorities' strategy. At the same time, sustainable growth will require higher savings and investment, which depend crucially on the speed at which the economy is transformed through privatization and other key structural measures. Access to foreign markets for Bulgaria's exports and to capital markets will also be crucial for Bulgaria's external viability.

Bulgaria joined the IMF on September 25, 1990, and its quota is SDR 464.9 million (about $649 million). Its outstanding use of IMF financial resources currently totals SDR 459.9 million (about $642 million).

Press Release 94/26, April 11

NEPAL: Second ESAF Loan

The IMF today approved the second annual loan for Nepal under the enhanced structural adjustment facility (ESAF) in an amount equivalent to SDR 11.19 million (about $16 million) to support the Government's economic program over the next year. The loan is being made available in two equal semiannual installments, with the first disbursement on April 29, 1994.

Background

Since 1991, the Nepalese authorities have been implementing a medium-term strategy designed to raise economic growth through wide-ranging trade, industrial, and financial sector reforms, and improved public resource management. Encouraging progress in restoring macroeconomic stability was made under the IMF-supported program for 1992/1993: inflation was reduced to under 9 percent in 1992/1993 from about 21 percent in 1991/1992; the external current account deficit declined to under 9 percent of GDP, reflecting higher exports and smaller-than-envisaged import growth; while the overall balance of payments was in surplus as a result of significant capital inflows. However, the fiscal deficit exceeded the program target, and real GDP growth was only 3 percent because of an unfavorable monsoon. The slippages in the fiscal position were largely related to lower-than-anticipated revenues, some shortfall in external assistance, and the absence of necessary adjustments in expenditures. At the same time severe floods in 1993 caused considerable loss of life and property and disrupted transport, infrastructure, and irrigation.

The implementation of structural reforms has accelerated significantly since 1991, buoyed by the stronger external position. A dramatic liberalization of the trade and exchange system was effected, which marked Nepal's shift to an open trade regime. The pervasive system of industrial licensing was dismantled and steps were taken to deregulate foreign investment.

Medium-Term Strategy

The Government's medium-term strategy aims to move Nepal to a higher sustainable growth path by invigorating private sector participation in economic activity and by improving public resource management. The main objectives for the medium term are to sustain a real GDP growth of about 4.2 percent through 1995/96 (the end of the program period); reduce inflation to an average of about 6 percent by 1995-96; and hold the external current account deficit to 10.7 percent of GDP by 1996.

The 1994 program supported by the second ESAF loan spans the two fiscal years 1993/1994 and 1994/1995. The objectives are to reach real GDP growth of over 6 percent in 1993/1994 and about 4½ percent in 1994/1995; lower the inflation rate to about 8 percent during 1993/1994 and to 7 percent during 1994/1995; and limit the current account deficit to about 10 percent of GDP in 1994/1995.

To reach these objectives, a comprehensive fiscal restructuring is being undertaken, which encompasses reforms to improve fiscal management, prioritize expenditures, and increase the elasticity and broaden the base of the tax system. A key aim of fiscal policy will be to reduce domestic borrowing to about 1¼ percent of GDP in 1993/94 and ¾ percent in 1994/95 in order to keep public sector debt within prudent limits and ensure that private saving is not preempted by the public sector.

Monetary and credit policies have been designed to support the inflation and balance of payments objectives of the program, while ensuring that the private sector receives sufficient credit to maintain its strong expansion. Open market operations for government securities will be enhanced, and a more competitive banking system developed.

Structural Reforms

Structural reforms will continue to be aimed at strengthening the role of the private sector in economic activity, while reducing the scope and enhancing the efficiency of the public sector. A major overhaul of the public enterprise sector is being implemented. Most government monopolies have already been eliminated. The majority of public enterprises are slated to be privatized and further actions are being taken to commercialize those enterprises that remain under public ownership. In the financial sector, the Government recently adopted a program to restructure the two large state-owned banks, including their full privatization by 1997. Further actions will also be taken in the areas of tariff reform and import valuation.

Addressing Social Costs

The Government intends to pursue its efforts to alleviate poverty and improve social indicators by means of the economic reforms, which are designed to raise productivity, and by developing the social and economic infrastructure. As part of the reorientation of expenditure priorities, special attention will be paid to the delivery of basic services, such as primary education, health care, and safe drinking water. In addition, a multi-donor-supported family health planning program will be finalized.

Challenge Ahead

The reforms of the past two years have already generated some important initial successes. Nevertheless, the economy continues to be vulnerable to external shocks. Fundamental fiscal restructuring is needed in order to promote macroeconomic stability as well as to ensure that expenditures concentrate on high-priority activities. In order for Nepal to attain its objective of higher and sustainable economic growth, while strengthening internal and external balances, the Government will need to follow prudent fiscal and monetary policies and press ahead with the bold program of reforms. At the same time, it is recognized that substantial external financing will be needed for the continuation of Nepal's reform process.

Nepal joined the IMF on September 6, 1961, and its quota is SDR 52 million (about $73 million). Nepal's outstanding financial obligations to the IMF currently total SDR 35.81 million (about $50 million).

Press Release 94/27, April 15

BANGLADESH: Article VIII

The Government of Bangladesh has notified the International Monetary Fund that it has accepted the obligations of Article VIII, Sections 2, 3, and 4 of the IMF Articles of Agreement, with effect from April 11, 1994. IMF members accepting the obligations of Article VIII undertake to refrain from imposing restrictions on the making of payments and transfers for current international transactions or from engaging in discriminatory currency arrangements or multiple currency practices without IMF approval. Bangladesh is the eighty-seventh member of the IMF to assume Article VIII status.

Two of the main purposes of the IMF, as stated in its Articles of Agreement, are to facilitate the expansion and balanced growth of international trade, and thereby to contribute to the promotion and maintenance of high levels of employment and real income; and to assist in the establishment of a multilateral system of payments in respect of current transactions between IMF members. In seeking to achieve these objectives, the IMF exercises firm surveillance over the exchange rate policies of its members, and oversees the elimination of exchange restrictions which hamper the growth of world trade.

By accepting the obligations of Article VIII, Bangladesh gives confidence to the international community that it will pursue sound economic policies that will obviate the need to use restrictions on the making of payments and transfers for current international transactions, and thereby contribute to a multilateral payments system free of restrictions.

Bangladesh has been a member of the IMF since August 17, 1972, and its quota in the IMF is SDR 392.5 million (about $549 million).

Press Release 94/28, April 15

RUSSIA: Second STF Drawing

The IMF has approved a second drawing for the Russian Federation under the systemic transformation facility (STF) equivalent to SDR 1,078.275 million (about $1.5 billion) in support of the Government's 1994 economic reform and stabilization program. Russia's first drawing under the STF, also SDR 1,078.275 million, was approved by the IMF on June 30, 1993.

Background

Russia's economic situation remained difficult in 1993. Output continued to decline, albeit at a somewhat slower rate than in 1992, and while the monthly rate of inflation has remained high, there has been some deceleration in recent months. Average wages largely kept pace with inflation, and while unemployment has not increased appreciably, forced vacations and shorter working time have risen noticeably. The Government pursued a relatively tight fiscal policy during the first half of 1993. However, large-scale slippage on expenditures and the failure to adopt envisaged revenue measures led to a sharp deterioration in the second half of the year. Toward the end of the year, the Government moved to address the difficult fiscal situation by containing cash expenditures. While this probably helped to reduce the level of inflation in the first quarter of 1994, it triggered a substantial accumulation of budgetary arrears. During

Russian Federation: Selected Economic Indicators

	1991	1992	1993[1]	1994[2]
		(percent change)		
Real economic growth	−13.0	−19.0	−12.0	−10.0
Consumer price index	93.0	1,353.0	896.0	399.0
		(percent of GDP)		
General government budget	−16.0	−6.3	−5.7	−6.5
Enlarged government budget	...	−18.2	−8.0	−6.5
		(billion U.S. dollars)		
Current account balance	3.2	−5.7	2.7	−12.0

[1] Estimate
[2] Program

Data: Russian authorities and IMF staff

1993, monetary policy was directed at lowering monetary growth by setting quantitative limits on domestic credit to the government, to commercial banks, and to central banks in other countries of the former Soviet Union. The Central Bank of Russia (CBR) substantially raised its lending rate, and by the end of 1993, most interest rates exceeded the rate of inflation.

During 1993, the current account of Russia's balance of payments improved and registered surpluses with the states of the former Soviet Union and other countries. Although the capital account, including errors and omissions, was below the programmed level, net international reserves increased by over $3 billion during the year.

While the macroeconomic policy outcome was mixed in 1993, on the structural side the Government took a number of important policy steps consistent with the transition to a market economy, and it consolidated a number of reforms introduced in 1992.

Program for 1994

The main objectives of the 1994 program, supported by the STF drawing, are to further reduce the rate of inflation through tighter fiscal and monetary policies, and to consolidate and strengthen structural reforms and the transition to a market economy, thus setting the stage for economic growth and an improvement in living standards. The decline in real GDP is to be contained to 10 percent in 1994, compared with 12 percent in 1993, the monthly rate of inflation is projected to decline to 7 percent by the end of the year, and gross international reserves are projected to increase to around $10 billion by the end of the period. To achieve these objectives, the program calls for a reduction in the expansion of credit by the monetary authorities which, in turn, requires a significant reduction in the budget deficit.

Monetary policy will continue to play a key role in reducing inflation and encouraging a more efficient allocation of resources. The main elements of monetary policy are: 1) reducing the growth rate of money and credit aggregates; 2) maintaining the CBR's finance rate at market levels; 3) moving away from the system of centralized credit distribution to one in which the CBR provides credit to commercial banks through auctions and other market mechanisms; 4) avoiding interest rate subsidies on new credits; and 5) refraining from extending credit to clear inter-enterprise arrears.

A tighter fiscal policy is essential if the inflation and credit targets are to be reached. Overall, the enlarged government deficit (including the net operations of the federal and local governments and the extrabudgetary funds) is expected to decline to 6.5 percent of GDP in 1994 from 8 percent of GDP in 1993. Within this aggregate, the federal budget deficit is expected to remain at around 7 percent of GDP in 1994, signaling an improvement in the underlying fiscal position during the year after account is taken of the fact that the substantial arrears that arose during the last quarter of 1993 are being paid in the first half of 1994, and that a number of extrabudgetary programs, equivalent to 2 percent of GDP, are included in the budget for the first time. In order to reach the enlarged and federal government deficit targets, the authorities have taken a number of steps to increase revenues, contain expenditures, and improve other aspects of budgetary policy and execution.

The program does not envisage any changes in the exchange rate system, and foreign exchange market intervention by the CBR will be aimed solely at smoothing exchange rate fluctuations.

The Executive Board of the IMF has noted the intention of the Governments of Russia and Belarus to enter into a monetary union; it has welcomed the intention of the Russian authorities, prior to the implementation of the agreement, to consult with the IMF as to any modification in the program that may be needed so as to ensure that the STF program's objectives are adhered to.

Structural Policies

The Government intends to pursue a general policy of integrating Russia into the world economy, and to this end, it plans to proceed with negotiations regarding Russia's accession to the General Agreement on Tariffs and Trade (GATT). Apart from those areas where legislative restrictions apply, foreign entrepreneurs will be accorded the same treatment as nationals.

The export regime will be liberalized in a number of ways, including the elimination of export quotas, with the exception of certain energy products and nonferrous metals, and the phasing-out of the centralized export scheme during 1994 and its elimination from the start of 1995. Government imports will be limited to certain foodstuffs, medicines, and veterinary products, and the unbudgeted import subsidies discontinued at the start of this year will be replaced by a system of budgetary on-lending.

The state privatization program approved for 1994 reduces the list of enterprises excluded from privatization and, starting on July 1, auctions of enterprise shares will be conducted on the basis of cash rather than vouchers. At the same time, the authorities intend to encourage the participation of direct foreign investment in the privatization process. The Government also plans to establish criteria

to determine whether state-owned enterprises should be reorganized, closed down, or privatized. The legal and institutional infrastructure of the securities market will be strengthened to ensure the liquidity of shares of privatized enterprises and to encourage capital mobilization. A mechanism for protecting the rights of shareholders on the basis of developing an effective system of corporate management is to be created.

Challenge Ahead

The fall in industrial production that has taken place is largely an unavoidable consequence of the systemic transformation of the Russian economy, and cannot be confronted by loosening financial policies. Rather, economic policy should be aimed at creating an environment in which private enterprises, operating under hard budget constraints, will account for an increasing share of total output. But, given the serious difficulties faced by some large state-owned enterprises and the social and regional consequences that could result from their liquidation, a system of limited and conditional government support will be needed for some time. This means that considerably greater efforts will be needed to ensure that the most vulnerable groups of the population are better protected from the adverse effects of the transition. The Government is committed to improving the functioning of the social safety net. In particular, it intends to submit a proposal to the State Duma to increase unemployment benefits and simultaneously reduce the financial resources used by the Employment Fund to support individual enterprises.

The success of the Government's 1994 program critically hinges on the strict implementation of its fiscal plan. The program envisages a reduction of the deficit of the enlarged government in relation to GDP. In light of the likely reluctance of various sectors to accept a reduced level of budgetary support, the Government must be prepared to take offsetting deficit-reduction measures in the event that outlays in certain areas were to exceed budgetary levels.

While the Russian authorities will ultimately determine the success of their adjustment efforts, the international community will play a key role in providing open access to markets and financial assistance, including debt relief. The program for 1994 can be fully financed as Russia proceeds to regularize its financial relations with debtors and creditors.

Russia joined the IMF on June 1, 1992, and its quota is SDR 4.31 billion (about $6 billion). Russia's outstanding financial obligations to the IMF currently total SDR 1.8 billion (about $2.5 billion).

Press Release 94/29, April 20

Contributors to the Extended ESAF

The IMF's enlarged and extended enhanced structural adjustment facility (ESAF), which provides concessional loans to low-income countries undertaking comprehensive economic and structural reforms, initiated operations on February 23, 1994. Seventy-eight IMF members are eligible to draw on the renewed ESAF, whose concessional terms and conditions (0.5 percent interest, repayment in 10 years after 5 1/2 years' grace) are the same as the original ESAF.

Funding for the renewed ESAF comes from 43 IMF members, about half of which are developing countries; this broad participation reflects widespread recognition of the ESAF's effectiveness in supporting adjustment efforts of the low-income countries. The table below lists the contributors to the renewed ESAF.

Enlarged and Extended ESAF: Contributions as of April 15[1]

(million SDRs)

Contributor	Subsidies[2] (Grant or Grant Equivalent)	Loans	Contributor	Subsidies[2] (Grant or Grant Equivalent)	Loans
Argentina	30.8	—	Netherlands	56.4	—
Australia	13.3	—	Norway	14.7	60.0
Austria	25.8	—	Pakistan	4.0	—
Bangladesh	0.8	—	Portugal	5.8	—
Belgium	51.0	—	Singapore	18.3	—
Botswana	3.3	—	Spain[3]	36.8	67.0
Canada	60.0	200.0	Sweden	47.6	—
China	13.1	100.0	Switzerland[3]	50.0	166.7
Colombia	5.8	—	Thailand	18.3	—
Czech Republic	12.0	—	Tunisia	2.3	—
Denmark	26.3	—	Turkey	10.0	—
Egypt	12.0	100.0	United Kingdom	82.0	—
France	250.0	750.0	United States	73.0	—
Germany	—	700.0	Uruguay	2.1	—
Greece	18.1	—	Other contributing countries (2)	23.7	—
Iceland	1.2	—	**Total (43 countries)[3]**	**1,373.0**	**4,501.4**
India	11.3	—			
Indonesia	5.7	—			
Iran	2.4	—			
Italy	47.9	180.0			
Japan	250.0	2,150.0			
Korea	8.3	27.7			
Luxembourg	10.0	—			
Malaysia	18.3	—			
Malta	1.1	—			
Mexico[3]	40.9	—			
Morocco	8.6	—			

[1] A number of contributions are subject to legislative approval.
[2] Figures reflect the effective value to the ESAF of direct or indirect grant contributions. Grants in domestic currency are valued at mid-December 1993 exchange rates. Calculations are based on an assumed interest rate of 6 percent.
[3] Some contributions are conditioned on others' efforts, or expressed as a share of final amounts mobilized, and the amounts indicated assume achievement of the funding targets.

Erb Discusses Value of IMF Surveillance, Evolution of Global Monetary System

Following is an edited version of informal comments by IMF Deputy Managing Director Richard D. Erb at an Eastern Economic Association roundtable discussion on the Bretton Woods Agreement, held at the Boston Federal Reserve Bank on March 18:

One of the purposes of the IMF is to provide its members with a forum for consultation and collaboration on international monetary matters. But what is the international monetary system? According to the IMF Articles of Agreement, "the essential purpose of the international monetary system is to provide a framework that facilitates the exchange of goods, services, and capital among countries, and that sustains sound economic growth." The Articles do not precisely define what is meant by the "international monetary system," and it is possible to approach a discussion of this subject from different perspectives. For my part, I would like to describe briefly an important process of international monetary collaboration among the members of the IMF.

Following the breakdown of the Bretton Woods system of fixed but adjustable exchange rates in the early 1970s, IMF members searched for a new exchange rate regime to restore exchange rate stability. After a period of intensive negotiation, a consensus was reached that to achieve exchange rate stability—more broadly, financial and economic stability—it was necessary to achieve "orderly underlying conditions." The concept of orderly underlying conditions is itself a term of art, and one that may vary in content over time and from country to country. In general, however, underlying conditions refer to those economic developments and policies that have a significant impact on a country's exchange rates.

IMF Surveillance

The need to focus on underlying conditions is addressed by a collaborative procedure called IMF surveillance. Surveillance is a rather heavy and imposing word, but it is easier to explain what it means by describing how it is conducted. For each member, generally at least once a year, the IMF staff conducts an in-depth examination of the member's economy and economic policies. Particular attention is focused on monetary, budget, and exchange rate developments and policies. When developments and policies in other areas of an economy—for example, the labor market—have a significant impact on the overall economic performance, these are also examined. The staff prepares a report that is circulated to all members and discussed by the Executive Board. The Board's assessment of the member's policies is then communicated to the member government.

The objective of these surveillance consultations is to enable the IMF membership, through its representatives on the Executive Board, to assess whether a country's economic developments and policies—its underlying conditions—are consistent with the achievement of sustainable growth and domestic and external stability. Members are not obligated to accept or adopt the general policy analysis and recommendations of the IMF. However, it is a relatively rare occasion when the monetary authorities of a member do not accept the IMF's analysis and recommendations. The adoption of IMF recommendations is often quite another matter. A finance minister or central bank governor may agree that a country's external imbalances and domestic growth and prospects could be improved with a medium-term program of fiscal consolidation, for example, but obtaining the domestic political support for the necessary fiscal actions often proves difficult.

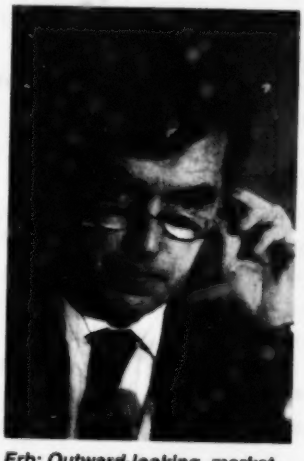
The IMF *World Economic Outlook*, prepared twice a year to serve as a background for meetings of the IMF Executive Board and the semiannual meetings of finance ministers and central bank governors, provides a global framework for the IMF's surveillance work. It is developed through an iterative process between staff who work on individual member economies and those who work on global assessment. It provides the IMF Executive Board, and in turn the membership, with an opportunity to examine IMF policy advice from a global economic perspective. This is particularly important with respect to the analysis and advice for the Group of Seven (G-7) countries, given the economic impact of developments and policy decisions in these countries on the rest of the world.

In recent years, IMF surveillance over the industrial countries has been strengthened. Also, the IMF has been closely involved in the process of policy coordination among G-7 countries. The IMF staff prepares background assessments in preparation for meetings of the G-7 ministers and governors. In addition, the Managing Director participates in the G-7 meetings of ministers and governors; at these meetings, he presents an assessment of economic developments and policies in each of the G-7 countries and their implications for each other and for the rest of the world.

IMF surveillance seeks to influence member policies through good analysis and peer pressure. Would some variation of a fixed exchange rate regime impose more effective discipline on domestic policies from the outside and be preferable? On this issue, there are different analytical and political perspectives. At least for now, the consensus of the IMF membership is a broad "no." This does not preclude regional efforts, as with the exchange rate mechanism of the European Monetary System, and much can be learned from such efforts.

Monetary System

I would like to turn now to an underlying development in the world economy—the increasing prevalence of outward-looking, market-based reforms—which I believe will have a major impact on the evolution of the international monetary system over the coming decades. During the course of its history, the IMF has assisted many countries in their efforts to put in place sound budget and monetary policies and to establish unified exchange rates, current account convertibility, and capital account convertibility. The work of the IMF has complemented the work of the World Bank, which has supported development projects and market-based structural reforms.



Erb: Outward-looking, market-based policies are increasingly prevalent.

The relatively more positive economic performance of those developing countries in Asia that chose outward-looking economic policies combined with prudent monetary and budget policies in the 1960s and 1970s has encouraged many other countries in Asia and in other regions to pursue similar policies. Beginning in the mid-1980s, this development broadened into Latin America and began to emerge in Africa.

At the end of the 1980s, a more dramatic transformation began in most of the countries that had previously attempted to build their economies through central planning. I have in mind not only the countries in the former Soviet Union and in Central and Eastern Europe, but also a number in Africa and Asia that had adopted central planning. One of the by-products of this change has been an increase in IMF membership from just under 150 countries in the late 1980s to almost 180 members today. Although the transformation of these countries will not be easy, and setbacks will occur, I am confident that, over time, the macroeconomic and market-based reforms being implemented will move these countries to relatively high growth paths and integrate them more fully within the larger world economy.

Looking ahead, the outward-looking, market-based reforms now under way in most developing countries and in the formerly centrally planned economies will produce positive economic results. The 155 members of the IMF that fall into these two broad country categories have a total population of 4.6 billion, or six times the population of the 23 IMF members classified as industrial countries. I believe that the favorable economic results expected for these countries will have a major impact on the evolution of the international monetary system and on cooperation within the IMF. ■

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Assistant Editors

Sharon Metzger • Lijun Li
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Sue Scott • Phil Torsani
Art Editor *Graphic Artist*

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